

Message Text

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C O N F I D E N T I A L STATE 172742

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SUBJECT: PRIME MINISTER BEGIN'S MEETING WITH SECRETARY
BLUMENTHAL, JULY 19

1. SECRETARY BLUMENTHAL CALLED ON PRIME MINISTER BEGIN
JULY 19 AT BLAIR HOUSE. ALSO PRESENT WERE AMBASSADOR LEWIS,
UNDER SECRETARY SOLOMON AND DESK OFFICER BANQUE FROM TREAS-
URY, AND AMBASSADOR DINITZ, MINISTER SHER, AND COUNSELOR
RAFF FROM ISRAELI EMBASSY.

2. BEGIN SAID THAT HIS GOVERNMENT HAD BEGUN TO DEAL WITH
ISRAEL'S ECONOMIC PROBLEMS, NOTING REDUCTION IN NATIONAL
BUDGET, INCLUDING MILITARY -- ALTHOUGH GOVERNMENT PLACED
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HIGHEST PRIORITY ON MAINTAINING MILITARY SECURITY AND
PROVIDING BEST POSSIBLE MILITARY EQUIPMENT. BEGIN STRESSED
THAT THERE WAS NO DIVISION BETWEEN ISRAELI PARTIES ON NEED
TO BRING ECONOMY INTO ORDER. ISRAEL WANTED TO LIVE ON ITS
OWN TOIL, AND NOT DEPEND ON FOREIGN AID.

3. BEGIN SAID ECONOMIC DECISIONS SHOULD BE LEFT TO PRIVATE

INITIATIVE. THE STATE SHOULD CREATE PROPER ECONOMIC CONDITIONS, BUT NOT COMPETE WITH PRIVATE INVESTORS. HIS GOVERNMENT WANTED TO ATTRACT PRIVATE INVESTMENT FROM U.S. AND

OTHER COUNTRIES. AN ECONOMIC CONFERENCE WOULD BE HELD AT YEAR'S END TO ATTRACT FOREIGN INVESTMENT, AND A LARGER ONE NEXT YEAR ON ISRAEL'S 30TH ANNIVERSARY. HE HAD ASKED TO SEE BLUMENTHAL IN ORDER TO ASK HELP IN ATTRACTING FOREIGN INVESTMENT. BEGIN ADDED THAT ISRAEL'S COMPLICATED INVESTMENT LAW NEEDED SIMPLIFICATION; THAT HIS GOVERNMENT WAS CONSIDERING ENDING CURRENCY CONTROLS, WHICH CREATED BLACK MARKETS AND DISTORTED RESOURCE ALLOCATION; AND THAT ALTHOUGH THEIR OBJECTIVE WAS SELF-SUSTAINED GROWTH, ISRAEL WOULD NEED SUPPORT UNTIL THAT GOAL WAS REACHED. BEGIN SAID THAT HE HOPED FINANCE MINISTER EHRlich COULD HOLD MORE DETAILED DISCUSSIONS WITH SECRETARY BLUMENTHAL ON FINANCIAL ISSUES AND ECONOMIC AID IN SEPTEMBER, WHEN EHRlich WOULD BE HERE FOR IBRD/IMF MEETINGS.

4. SECRETARY BLUMENTHAL RESPONDED THAT BEGIN'S GOALS WERE INTERESTING AND THAT THE PLANNED CHANGES WOULD REQUIRE COURAGE AND STRENGTH. HE WOULD LOOK FORWARD TO SEEING EHRlich IN SEPTEMBER AND, ALTHOUGH UNCERTAIN HOW HE COULD BE HELPFUL, WOULD TRY TO FACILITATE ATTAINMENT OF ISRAEL'S OBJECTIVES IN ANY WAY HE PROPERLY COULD.

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5. BEGIN CONTINUED THAT HIS GOVERNMENT HOPED TO REDUCE INFLATION RATE TO 15 PERCENT BY END OF ITS FOUR-YEAR TERM. INFLATION WAS NOW 26 PERCENT, AND MIGHT HAVE REACHED 50 PERCENT WITHOUT STEPS TAKEN RECENTLY. BEGIN SAID HIS GOVERNMENT ALSO INTENDED TO REDUCE BUDGET DEFICIT. PREVIOUS GOVERNMENT HAD REDUCED BALANCE OF PAYMENTS DEFICIT TO 3.3 BILLION DOLLARS IN 1976, BUT THIS WAS NOT ENOUGH. BEGIN HOPED TO REDUCE THIS FURTHER BY DOUBLING EXPORTS TO ABOUT 6 BILLION DOLLARS IN NEXT FOUR YEARS.

6. SECRETARY BLUMENTHAL, NOTING U.S.-SOVIET TRADE PROBLEMS, ASKED WHAT LEVEL OF EMIGRATION FROM USSR TO ISRAEL THE PRIME MINISTER MIGHT EXPECT OR HOPE TO SEE. BEGIN SAID CURRENT RATE OF 1,200 PER MONTH WAS NOT ENOUGH. SOVIETS HAD BEEN TESTING ISRAEL IN EFFORT TO REACH SOME SORT OF ARRANGEMENT, WHICH WAS POSSIBLE. EMIGRES WERE WELL-EDUCATED, AND PLAYED IMPORTANT ROLE IN ISRAEL. IN USSR, SLAVIC POPULATION WAS GROWING MORE EDUCATED AND WANTED POSTS HELD BY SOVIET JEWS. TO SATISFY THESE PEOPLE, SOVIETS HAD PERMITTED EMIGRATION. BEGIN SUGGESTED U.S. MIGHT TALK TO SOVIETS ABOUT A TACIT AGREEMENT. HE FELT EMIGRATION OF 100,000 PER YEAR WAS POSSIBLE. SUCH INFLOW

WOULD CREATE DIFFICULTIES FOR ISRAEL, BUT ISRAEL WOULD SOLVE THE PROBLEMS. BEGIN ADDED THAT THERE WERE 22 PRISONERS OF CONSCIENCE IN SOVIET LABOR CAMPS, AND REASONS FOR THEIR ARRESTS WERE CONCOCTED. FOR EXAMPLE, SHCHARANSKY

WAS ACCUSED OF BEING AN AMERICAN SPY; THE PRESIDENT HAD DENIED THIS, BUT HE WAS STILL DETAINED.

7. BEGIN OPINED THAT IN 10 YEARS, PERHAPS 500,000 SOVIET JEWS MIGHT EMIGRATE TO ISRAEL. SECRETARY BLUMENTHAL, NOTING THAT NET EMIGRATION COULD BE SMALLER, SINCE SOME MIGHT MOVE ON TO THIRD COUNTRIES, ASKED WHETHER ISRAEL COULD NEVERTHELESS ABSORB SO MANY. THE PRIME MINISTER ASSURED HIM THAT IT COULD, AND ADDED THAT HE WOULD PREFER CONFIDENTIAL

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THAT THE SOVIETS TALK TO ISRAEL DIRECTLY. SECRETARY BLUMENTHAL SAID THAT THIS WAS AN IMPORTANT PRACTICAL AND MORAL ISSUE, AND HE WAS SURE THAT THE PRESIDENT WOULD WISH ISRAEL THE BEST IN THIS ISSUE.

8. AT BEGIN'S SUGGESTION, DINITZ SAID THAT HIS EMBASSY WAS TRYING TO INCREASE ISRAELI EXPORTS TO U.S. AND U.S. INVESTMENT IN ISRAEL. THE TREASURY HAD HELPED THE EMBASSY IN PAST, AND IT WAS NOW IMPORTANT TO COOPERATE TO CREATE A STRONG JOINT BUSINESS COUNCIL. THE COUNCIL HAD HAD DIFFICULTY RECRUITING MEMBERS, WHICH SHOULD BE MORE REPRESENTATIVE OF ALL U.S. INDUSTRIES AND REGIONS. U.S.-ISRAEL COUNCIL HAD ONLY ONE MAJOR CORPORATE MEMBER, UNION CARBIDE, WHILE U.S.-EGYPT BUSINESS COUNCIL HAD A LARGE NUMBER. SECRETARY BLUMENTHAL SAID HE WOULD LOOK INTO THE ISSUE, BUT GIVEN THE BOYCOTT HE WAS NOT OPTIMISTIC ABOUT POSSIBILITIES.

9. THE PRIME MINISTER SAID HE HOPED THAT THE TREASURY COULD ALSO HELP ATTRACT FOREIGN INVESTMENT TO ISRAEL. MINISTER SHER NOTED THAT HE HAD MET THAT MORNING WITH TREASURY ASSISTANT SECRETARY BERGSTEN, IN THE STEERING COMMITTEE OF THE U.S.-ISRAEL JOINT ECONOMIC COMMISSION, AND WAS VERY SATISFIED WITH THE RESULTS. THE COMMITTEE HAD DISCUSSED VARIOUS PROJECTS AND DEVELOPED A PLAN FOR MINISTER EHRLICH AND SECRETARY BLUMENTHAL TO CONSIDER IN SEPTEMBER. VANCE

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